

## Responses from P34 Draft Modification Report Consultation

Consultation issued 22 February 2002

Representations were received from the following parties:

<b>No</b>	<b>Company</b>	<b>File Number</b>	<b>No. Parties Represented</b>
1.	TXU Europe	P34_MR_001	20
2.	LE Group	P34_MR_002	5
3.	EdF Trading Ltd	P34_MR_003	2
4.	ScottishPower UK plc	P34_MR_004	5
5.	SEEBOARD	P34_MR_005	2
6.	British Energy	P34_MR_006	3
7.	Scottish & Southern Energy plc	P34_MR_007	4
8.	British Gas Trading	P34_MR_008	3
9.	Innogy Group	P34_MR_009	6
10.	GPU Power UK	P34_MR_010	1

## **P34\_MR\_001 – TXU Europe**

20 TXU BSC Parties

We support the draft modification report conclusions and recommendations.

On page 10, last para, there appears to be a typographical error "once". We suspect that it should read "one of NGC's responses to the consultations.....". We understand the reason for this observation and although it may not have been the primary motivation for the amendment we agree that this effect should be noted.

We note that there has been much discussion about the effect of mitigating the imbalance arising from the provision of balancing services. We note that in respect of Standing Reserve providers the Supplier (Lead Party) of the BM Unit which contains the customer site at which such service is provided will still be adversely affected by the imbalance as long as the reserve contract is called within the Gate Closure period. This is because the Supplier will have purchased the anticipated customer demand ahead of Gate Closure and will be compensated for the reduced volume at SSP. As long as SSP is below market price, which is the whole point of dual cash-out, the only benefit of P34 Alternative is to effectively cap SSP at zero. Consequently we doubt that the proposal will make any significant difference to the willingness of Suppliers to register demand sites which provide Standing Reserve to NGC.

Philip Russell  
04/03/2002

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## **P34\_MR\_002 – LE Group**

Representing: London Electricity, South Western Electricity, Jade Power, Sutton Bridge Power and TXU Europe West Burton Ltd

Our comments on the P34 Modification Report, in addition to those found in our previous consultation on the matter, are as follows;

- We believe P36A best facilitates the achievement of the BSC objectives. Additionally we believe that P36A achieves the same effect as P34A as far as a 'non-active participant' is concerned.
- On page 28 the following sentence should be added to Q1.4.3. - "The Applicable Balancing Services Volume Statement will be a framework document under the code."
- On page 32 when referring to new definitions that shall be inserted in Annex X-1 - "Applicable Balancing Services" should be defined as "shall have the meaning given to that term in Q1.4.1".
- Having concentrated on active BM participants it is not clear how the balancing services of a 'non-active participant' in the Balancing Mechanism are dealt with as far as legal text is concerned. This may need to be addressed.

Rob Hetherington, Wholesale Market Analyst

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**P34\_MR\_003 – EdF Trading Ltd**

Can you please note that EDF Trading Ltd and EdF (Generation) agree with the findings as expressed in the following consultative Modification Proposal report:

P34.

The report gives appropriate and understandable justifications for the recommendations to which EDFT and EdF concur.

Steve Drummond  
EdF Energy Merchants Ltd

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**P34\_MR\_004 – ScottishPower UK plc**

With reference to the above, I would refer you to our previous comments on the proposal.

In this consultation response, we would reiterate our rejection of both the P34 Original and Alternative Proposal. Throughout the consultations of P34 and P36, we believe P36 Alternative better meets all the relevant Applicable BSC Objectives and provides the requisite flexibility to all providers of Applicable Balancing Services which we feel is necessary under these arrangements and is preferred to any of the P34 options.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours Sincerely,  
Man Kwong Liu  
Calanais Ltd.

For and on behalf of: - Scottish Power UK Plc.; ScottishPower Energy Trading Ltd.; Scottish Power Generation Ltd.; Scottish Power Energy Retail Ltd.; SP Transmission Ltd.

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**P34\_MR\_005 – SEEBOARD**

With respect to above mentioned consultation and recommendations within section 1.1 of draft modification report dated 22nd February 2002. We agree that proposed modification set out in section 5.1 of this report should be rejected. However, we disagree with recommendation to implement alternative modification set out in section 5.2 of this report.

Throughout the lifecycle of this modification we have stated that it does not provide a full solution to this problem and has little advantage over current methodology. Therefore, we disagree with the assertion that this modification will better facilitate BSC Objectives as we do not believe it promotes efficiency in the implementation and administration of the balancing and settlement arrangements. We feel that the costs of these changes, noted within section 1.3 of this modification report, back our position to reject this change given it will not provide

a comprehensive solution to this issue. We feel that at this stage a report should not be forwarded to the Authority until further consideration of this proposal is undertaken.

Dave Morton  
SEEBOARD Energy Limited  
SEEBOARD Power Networks plc

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#### **P34\_MR\_006 – British Energy**

BE does not support original P34 because it is applicable retrospectively. Retrospective changes with commercial impact represent an unmanageable risk which we believe should be avoided. The benefits of the change itself in better meeting BSC objectives in the future are outweighed by the impact on historic liabilities and the precedent which would be set.

BE supports the implementation of P34 alternative. This option removes, prospectively, the unmanageable imbalance exposure which currently occurs under the BSC as a result of providing balancing services to NGC, thus facilitating the BSC objective of improving efficiency.

Rachel Ace  
On behalf of  
British Energy Generation  
British Energy Power and Energy Trading  
Eggborough Power Ltd

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#### **P34\_MR\_007 – Scottish & Southern Energy plc**

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.

In relation to the Modification Report for proposed Modification P36 contained in your note of 22nd February 2002; we agree with the suggested BSC Panel recommendation to the Authority that the 'original' Modification Proposal P36 be rejected and that the Alternative Modification Proposal P34 be approved, with an implemented date of 1st December 2002.

Regards  
Garth Graham  
Scottish & Southern Energy plc

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#### **P34\_MR\_008 – British Gas Trading**

Thank you for the opportunity of responding to this consultation. This response is on behalf of British Gas Trading Ltd, Centrica King's Lynn Ltd and Centrica Peterborough Ltd. In responding to this consultation we note that there are other BSC modifications and CUSC amendments currently under consideration in respect of this issue.

We agree with the principle that it is inappropriate for Parties who provide Balancing Services to NGC to face the consequences of any imbalance that the provision of that energy may incur. However, we do not believe the retrospective element of the original modification should be applied. We note that NGC suggested the removal of the retrospective date after the Assessment stage had been completed. This submission was at a very late stage in the development of the modification and after the Assessment consultation had been completed. We are concerned that to have accepted NGC's proposal would have set an inappropriate precedent for future modifications. Since the BSC began it has generally been understood that the Original modification is as submitted by the proposer and any changes would result in an alternative. We believe this principle is correct and see no reason why it should be changed.

We also note that as the Alternative modification does not contain a retrospective date the problem of retrospection was dealt with by the modification group from the beginning of the modification's development. We therefore support the Alternative over the Original proposal as it removes the retrospective element in the original proposal.

We recognise that the Alternative modification introduces a further element to the Original proposal by the requirement to have a framework document under the auspices of the BSC. We support this framework as we believe it is correct that there should be a definition and methodology for calculation of the volumes associated with Applicable Balancing Services in the Code. We believe this will increase transparency in the arrangements surrounding the provision of Balancing Services and so will better facilitate Applicable BSC Objective c) *'Promoting effective competition in the generation and supply of electricity...'*.

In summary, in assessing this modification against the current baseline we agree with the view of the modification group that the Alternative modification will better facilitate the Applicable BSC Objectives. However, it should be noted that we do not support this modification over either of the CUSC Amendments or P36 Alternative.

Yours faithfully  
Danielle Lane  
Transportation Analyst

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## **P34\_MR\_009 – Innogy Group**

Innogy's comments on P34 Draft Modification Report on behalf of Innogy plc, npower Limited, Innogy Cogen Trading Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited

### **Introduction**

1. Currently, energy delivered as a consequence of providing Mandatory Frequency Response is paid for at system prices in the BM either as spilled energy or as a shortfall. It is recognised that this transaction will result in an imbalance cost and a mechanism in CUSC seeks to compensate for this imbalance exposure. Other services may also have a compensation payment as part of commercial agreements.

## **Features of P34**

2. P34 and its alternative would remove a calculated volume of energy from the provider's account. This removes the energy from the imbalance calculations and results in this volume of energy being provided by the provider at its own expense unless suitable arrangements are in place elsewhere.
3. P34 is silent on how this energy should be paid for. This is a major deficiency with P34 since without this key element it is impossible to assess the proposal against the applicable objectives.
4. If the volume calculations that determine the energy transferred from the provider's account are made outside the BSC (or a subsidiary document), then it is unclear how this can be held to better meet the BSC objectives. The basis of the volume calculation is critical to ensuring that providers are not exposed to unrecoverable costs associated with the provision of Balancing Services.
5. The assumption underpinning P34 and its alternative is that the volume calculation will result in a provider no longer having any imbalance exposure. This is not the case. As yet, no methodology has been developed that would accurately reflect the variations in output delivered when providing Response.
6. Unless the delivered energy is properly valued and the volume correctly calculated, then providers will be left with price and volume risk that will result in increased reluctance to provide these services thus positively frustrating the BSC objectives. Although P34 claims to address the concerns of providers, our view is that it will in fact exacerbate these concerns, particularly with regard to mandatory Frequency Response.
7. P34 would result in a significant reduction in overall cash-flows to plant providing Response. Rather than encourage the provision of the service when required, this economic signal will have precisely the opposite effect.
8. The implementation of P34 or its alternative is likely to result in CUSC being modified to incorporate a payment for the delivered energy when providing Frequency Response. If P34 also relies on the volume calculation taken from CUSC then this would result in CUSC being changed from a contract for a service, with a compensation payment for costs incurred when providing the service, to a contract for physical energy. Such a change does not seem to fit with the purpose of the CUSC which (as with the pre-NETA Ancillary Services Agreements for Response) has not concerned itself with delivered energy.

## **Summary**

9. P34 and its alternative would reduce the willingness of generators to provide mandatory Frequency Response. Significant costs to the providers could be incurred arising from inaccuracies in the volume calculation and deficiencies in the payments for the energy.
10. Mandatory Frequency Response accounts for a very large proportion of balancing service energy. For this reason, if P34 or its alternative do not properly address issues concerning the provision of Response, then any improvements that may be brought

about for other services will be more than negated by increasing the deficiencies in the arrangements for the provision of Frequency Response.

## **Conclusion**

11. Innogy does not support P34 or P34 Alternative as in our view they do not better facilitate the BSC objectives. Our further concern is that P34 will transfer the payment for energy (produced as an automatic response to frequency) from the BSC to the CUSC and thus treat it differently to all other balancing energy.

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## **P34\_MR\_010 – GPU Power UK**

Please find that GPU Power UK response to P34 - Transfer of Imbalances Caused by Balancing Services to the NGC is 'No Comment'.

Rachael Gardener  
Deregulation Control Group &  
Distribution Support Office  
GPU POWER.NETWORKS (UK) plc